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SUBJECT: INTSUM 613 - JULY 25, 1978

LONDON FOR KINSOLVING
PARIS FOR NICHOLAS MURPHY
OTHER ADDRESSEES FOR CHIEFS OF MISSION

1. ISRAEL. YESTERDAY'S ANNOUNCEMENT BY MINISTER OF INDUSTRY AND COMMERCE HOROWITZ THAT HE INTENDS TO RESIGN FROM THE CABINET CONSTITUTES THE FIRST MINISTERIAL RESIGNATION SINCE THE BEGIN GOVERNMENT ASSUMED OFFICE 13 MONTHS AGO. (HOROWITZ STATED THAT HE WILL SHORTLY SEND A FORMAL LETTER OF RESIGNATION, WHICH WILL TAKE LEGAL EFFECT 48 HOURS AFTER ITS SUBMISSION.) HE HAS PUBLICLY STATED THAT HE IS RESIGNING BECAUSE OF THE CABINET'S FAILURE TO CUT THE BUDGET. AS A LEADING FIGURE WITHIN THE LA'AM FACTION OF THE LIKUD, HOROWITZ TENDS TO TAKE A CONSERVATIVE POSITION ON ECONOMIC QUESTIONS.

2. HOROWITZ'S ACTION ATTESTS TO THE INABILITY OF THE LIBERAL MINISTERS, WHO DOMINATE ECONOMIC POLICYMAKING IN THE BEGIN GOVERNMENT, TO CARRY OUT THEIR FREE ENTERPRISE IDEAS IN AN ECONOMY DOMINATED BY GOVERNMENT AND THE HISTADRUT. THE POLITICAL REALITY OF THE LIKUD'S
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DEPENDENCE UPON LOW-INCOME ORIENTAL VOTERS PRECLUDES A REDUCTION IN SUBSIDIES WHICH ASSIST THIS GROUP. NEITHER THE LIBERALS NOR LA'AM -- WHOSE ATTITUDES TOWARD ECONOMIC POLICY ARE SIMILAR -- HAVE BEEN ABLE TO DEVISE A WAY TO MAKE SUBSTANTIAL CUTS IN A BUDGET WHOSE PRINCIPAL ITEMS ARE DEFENSE EXPENDITURES AND DEBT-SERVICE.

3. THE HOROWITZ RESIGNATION IS UNLIKELY, NEVERTHELESS, TO HAVE ANY SIGNIFICANT IMPACT ON THE LONGEVITY OF THE BEGIN GOVERNMENT. THE WITHDRAWAL OF ALL OR PART OF THE LA'AM'S EIGHT-MEMBER KNESSET DELEGATION FROM THE COALITION WOULD BE VERY UNLIKELY WITHOUT DAYAN'S APPROVAL, AS DAYAN IS REGARDED BY A LARGE SEGMENT OF LA'AM AS ITS POTENTIAL LEADER. MOREOVER, HOROWITZ IS BOTH DAYAN'S COUSIN AND HIS PRINCIPAL SUPPORTER IN THE CABINET.

4. THERE HAS BEEN A GOOD DEAL OF SPECULATION ABOUT HOROWITZ LEADING THE BULK OF LA'AM OUT OF THE LIKUD AND ESTABLISHING A NEW POLITICAL PARTY WHICH DAYAN WOULD HEAD. WHILE THAT MIGHT GIVE DAYAN AT LEAST A MEASURE OF THE POLITICAL LEVERAGE HE LACKS AT PRESENT, HOROWITZ WOULD BE UNLIKELY TO UNDERTAKE SUCH A MOVE WITHOUT DAYAN'S

BLESSING. DAYAN, FOR HIS PART, WOULD NOT BE LIKELY TO APPROVE THIS WITHOUT BEGIN'S AGREEMENT, UNLESS DAYAN HIMSELF WERE PREPARING TO BREAK WITH BEGIN.

5. THE RELATIONSHIP BETWEEN THE HOROWITZ RESIGNATION AND THE STRUGGLE OVER ISRAELI FOREIGN POLICY REMAINS MURKY AT THE PRESENT TIME. HOROWITZ IS A CONFIRMED HARDLINER. HE HAS BEEN IN THE FOREFRONT OF THOSE DEMANDING WEIZMAN'S OUSTER.

6. THE CABINET'S DECISIONS OVER THE WEEKEND HAVE CONFIRMED BEGIN'S CONTINUING ASCENDANCY. WHILE THERE HAVE BEEN CONFLICTING PRESS REPORTS OVER WHETHER OR NOT THE CABINET'S REJECTION OF SADAT'S SUGGESTION THAT ISRAEL RETURN
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EL-ARISH TO EGYPT AS A GOOD-WILL GESTURE WAS UNANIMOUS, THE CABINET DID VOTE IN ACCORD WITH BEGIN'S WISHES WITHOUT OSTENSIBLE DISSIDENT. BEGIN IS FURIOUS AT WHAT HE VIEWS AS HIS MISTREATMENT AT THE HANDS OF SADAT, THE US,

THE LABOR OPPOSITION, AND CERTAIN LIKUDNIKS AS WELL. HIS DETERMINATION TO RESIST WHAT HE PERCEIVES AS A COMBINATION OF EXTERNAL AND INTERNAL PRESSURE TO FORCE HIM FROM OFFICE HAS REINFORCED HIS APPARENT DETERMINATION NOT TO MAKE ANY FURTHER CONCESSION IN THE NEGOTIATIONS.

7. BEGIN IS COMFORTABLE IN THE ROLE OF A BELEAGUERED LEADER OF A SMALL GROUP. MOREOVER, HE HAS RECENTLY ENJOYED A REKINDLING OF SUPPORT FROM HIS TRADITIONAL BOOSTERS ON THE RIGHT. THIS, TOGETHER WITH A RESUSCITATION OF FAMILIAR ATTACKS FROM THE DOVES, MAY HAVE HELPED TO REJUVENATE A LEADER WHO HAS FOR SEVERAL MONTHS FOUND HIMSELF OCCUPYING AN UNFAMILIAR, UNCOMFORTABLE, AND EQUIVOCAL POSITION.

8. BEGIN'S RECENT COUNTER-ATTACK AGAINST THE LABOR PARTY HAS PUT THE OPPOSITION ON THE DEFENSIVE. MRS. MEIR HAS EXPRESSED REGRET THAT SCATHING REMARKS MADE AT A LABOR PARTY MEETING ABOUT BEGIN'S MENTAL STATE WERE LEAKED TO THE PRESS.

9. OF GREATER SIGNIFICANCE WAS A SPEECH PERES MADE ON JULY 23. THE LABOR PARTY CHAIRMAN, IN "CLARIFYING" HIS PARTY'S PRINCIPLES, STATED THAT LABOR WILL NOT ACCEPT "MINOR BORDER MODIFICATIONS." PERES INSISTED THAT LABOR DEMANDS "DEFENSIBLE BORDERS DEPENDENT ON THE SETTLEMENTS WHICH WERE SET UP UNDER OUR ORDER." HE ALSO DECLARED THAT LABOR WOULD NOT TURN ITS BACK ON THESE SETTLEMENTS.
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10. ON THE ISSUE OF THE PROPRIETY OF HIS MEETING WITH SADAT, PERES:

(A) ATTACKED THOSE WHO CHARGED THAT HIS TALKS "WERE LIKE A KNIFE IN THE BACK";

(B) DENIED THAT HE WAS "HOPING TO RISE TO POWER ON AS-SADAT'S SHOULDERS";

(C) CHARGED THE LIKUD WITH ACCUSING HIM OF BEING A TRAITOR.

11. THESE REMARKS REFLECT PERES' AWARENESS THAT HE IS NOW TREADING A VERY DANGEROUS PATH. HIS ATTEMPTS TO PORTRAY HIMSELF AS THE MAN WHO CAN TALK TO SADAT AND BRING PEACE COULD BACKFIRE. EACH TIME HE STRESSES THE COMMON GROUND HE SHARES WITH SADAT, PERES COULD JEOPARDIZE HIS AND HIS PARTY'S STANDING IN THE EYES OF A MAJORITY OF ISRAELI OPINION WHICH BELIEVES SADAT'S PROPOSALS SPELL

SUICIDE FOR ISRAEL. MOREOVER, PERES COULD PROVOKE A PARTY SPLIT IF HE SEEMS TO BE JEOPARDIZING LABOR PARTY SETTLEMENTS IN THE OCCUPIED TERRITORIES.

12. PERES MUST ALSO BE CAREFUL LEST HE EXPOSE HIMSELF AND HIS PARTY TO CHARGES OF DISLOYALTY. A FINAL COLLAPSE OF NEGOTIATIONS COULD BOOMERANG AGAINST LABOR, AS AN EMBITTERED AND DISILLUSIONED PUBLIC TURNED ON THE PARTY WHICH ALLEGEDLY UNDERMINED ISRAEL'S NEGOTIATING POSITION AND PLAYED INTO THE HANDS OF ITS ENEMIES. (CONFIDENTIAL)

13. LEBANON. EMBASSY DAMASCUS REPORTS THE SYRIAN MEDIA HAS BEEN GRADUALLY INCREASING THE INTENSITY OF THEIR ATTACKS AGAINST THE PHALANGE AND THE SHAMOUNISTS. THE SYRIANS ARE MAKING A MAJOR EFFORT TO REFUTE CHARGES THAT

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SYRIA IS ACTING AGAINST LEBANESE CHRISTIANS ON A SECTARIAN BASIS. THE PRESS BLUNTLY ACCUSES THE RIGHTISTS OF BEING ISRAELI ALLIES AND DETAILS ALLEGATIONS OF SUCH COOPERATION. SYRIAN EDITORIALS ARE SPLIT AS TO WHO IS THE MAJOR PARTY BEHIND THE PLOT -- ISRAEL OR THE US. EMBASSY DAMASCUS COMMENTS THAT THE MEDIA PLAY APPEARS DESIGNED TO PREPARE DOMESTIC AND PUBLIC OPINION AND TO REASSURE SYRIA'S

CHRISTIANS IN THE EVENT THAT WIDESPREAD HOSTILITIES RESUME. MEANWHILE, A BRIEF FLURRY OF SHELLING AND MACHINEGUN FIRE ERUPTED YESTERDAY AFTERNOON IN THE HADATH SUBURBS OF BEIRUT, BUT STOPPED BY EVENING.

14. EMBASSY TEL AVIV REPORTS THAT ISRAEL'S CURRENT RELATIONSHIP WITH THE RIGHTIST MILITIAS IN LEBANON IS BASED UPON ITS ASSESSMENT THAT THE LEBANESE GOVERNMENT WILL REMAIN UNEQUAL TO THE TASK OF REASSERTING ITS AUTHORITY THROUGHOUT THE COUNTRY. THEREFORE, THE MILITIAS ARE THE ONLY REAL DETERRENT TO THE SYRIANS BECOMING EVER MORE DOMINATING IN LEBANON AND THE PALESTINIANS REVENTING TO THEIR ATTACKS ON ISRAELI SETTLEMENTS ALONG THE NORTHERN BORDER. THE CHRISTIAN MILITIAS ARE ALSO SEEN BY THE ISRAELIS AS THE MAIN FORCE HOLDING LEBANON BACK FROM EVENTUALLY BECOMING A CONFRONTATION STATE. THE ISRAELIS WOULD PREFER THAT CHRISTIAN HOT-HEADS NOT PROVOKE THE SYRIANS, BUT AT THE SAME TIME THE ISRAELIS WILL COUNSEL NOTHING TO THE MILITIAS THAT WOULD REDUCE THEIR ABILITY TO DEFEND THEMSELVES AGAINST THE "INEVITABLE" SYRIAN ONSLAUGHT. (CONFIDENTIAL) VANCE

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